



COMMUNITY DEVELOPMENT
FINANCIAL INSTITUTIONS FUND

DEPARTMENT OF THE TREASURY
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Hearing on FY 2001 Appropriations

**United States Senate
Subcommittee on VA, HUD, and Independent Agencies**

**General Statement
Of
Ellen W. Lazar, Director**

**DEPARTMENT OF THE TREASURY
Community Development Financial Institutions Fund
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INTRODUCTION

Chairman Bond, Senator Mikulski and distinguished Members of the Subcommittee, it is a pleasure to be before you today to represent the Community Development Financial Institutions (CDFI) Fund. I am Ellen Lazar, the Director of the Fund. Before I begin my testimony, I would like to introduce to you another key member of the Fund who is with me today: Maurice Jones, Deputy Director for Policy and Programs at the Fund.

My testimony today will focus on four major areas: 1) the principles underlying the operations of the CDFI Fund; 2) the Fund's management systems; 3) the performance of the Fund so far; and 4) Fund objectives for FY 2001.

THE CDFI FUND: PRINCIPLES OF OPERATION

The CDFI Fund, working with private sector partners across the country, operates on four basic principles: 1) its programs and initiatives are highly targeted, focusing on areas and individuals inadequately served by conventional financial markets; 2) its funds are recycled within communities in need; 3) its Federal resources leverage private sector and other non-Federal resources into underserved places; and 4) its programs stress performance in the form of both outputs and outcomes.

CDFI Fund programs strive to address gaps in the marketplace by targeting resources to financial institutions that serve individuals and communities that cannot adequately access capital from the traditional marketplace. For example, funds are used to support: 1) small business loan funds that originate loans, sometimes as small as \$500, that are difficult for mainstream financial institutions to offer; 2) housing loan funds that provide downpayment and closing costs assistance, subordinated debt, pre-development grants, bridge loans and other sources of financing that increase the supply of affordable housing and enable poor people to get mortgages; 3) community development banks and credit unions that offer Individual Development Accounts, Electronic Transfer Accounts, and other products targeted to underserved populations; and 4) community development venture capital firms whose highly targeted investments facilitate the creation and retention of jobs in distressed areas across America.

To ensure that CDFI funds support institutions serving those most in need, the Fund requires all organizations designated by the Fund as CDFIs to demonstrate that at least 60% of their activities are targeted to distressed communities, low-income individuals, or other individuals that have been denied access to mainstream financial services. The Fund further requires that these organizations provide technical assistance and training to their borrowers. This requirement benefits CDFIs as well as their borrowers. CDFIs will enjoy higher rates of repayment and larger returns on their investments, and borrowers will acquire general financial and business skills and develop positive credit histories. As a result, both the CDFIs and the borrowers they serve become more attractive to mainstream financial institutions.

The CDFI Fund's assistance to needy communities supports community and economic development activities for years after the Fund's initial investment. The Fund requires applicants seeking designation as a CDFI to demonstrate that their predominant business activity is the provision of loans, equity investments, deposit accounts or other sources of capital that can be invested, repaid, and then recycled to other individuals or organizations in need. In addition, the Fund provides investments that directly support the long-term growth and viability of lending-based institutions. Fund awards enable institutions to build their capacity to better administer their programs and provide them with the capital needed to grow their loan funds and make their products more affordable to their borrowers.

The CDFI Fund leverages investments from other public and private institutions. Under several of the Fund's programs, applicants must demonstrate that they have significant community partnerships in place. In addition, certain awardees are required to provide a dollar for dollar match of non-Federal assistance for each dollar of Fund assistance provided. These matching funds come from a variety of sources, including local governments, banks, insurance companies, foundations, individuals and non-profit institutions. The match requirement helps to ensure that the awardee coordinates the use of Fund assistance with other entities in the community, and that these other entities will be involved in supporting the ongoing operations of the CDFI.

The Fund also encourages mainstream financial institutions to invest in CDFIs. Regulated financial institutions may receive awards from the Fund for, among other things, increasing

their provision of grants, equity investments, loans, deposits or other investments to certified CDFIs.

The CDFI Fund's programs are designed to achieve maximum community and economic development impact. When a CDFI applies to the Fund for assistance, it must submit a business plan that includes its projected levels of activity and the anticipated impact of these activities upon the community. Prior to receiving a Fund award, an awardee must agree to meet performance standards that are based upon the activities and impacts outlined in its business plan. For example, a housing loan fund that receives an award would have to meet minimal thresholds not only for the number and dollar amount of loans it originates, but also for the number of housing units created as a result of its financing. Similarly, a business loan fund may be monitored based not only upon the number and dollar amounts of loans it disburses, but also upon the number of jobs created or retained by its borrowers. This type of "performance-based monitoring" helps ensure that the Fund is achieving a high degree of community development impact as a result of its investments.

MANAGING FOR RESULTS

I am pleased to report that our independent auditors (KPMG, LLP) provided an unqualified opinion on the Fund's financial statements for the fiscal year that ended September 30, 1999. KPMG's opinion affirms that the Fund's Statements of Financial Position, Operations, and Changes in Net Position and Cash Flow are fairly presented. This marks the third consecutive year in which the Fund has received an unqualified audit opinion. In addition, for the second year in a row, the Fund's independent auditors identified no material weaknesses. Also, the Fund has no reportable conditions. These findings reflect the tireless commitment of the Fund's staff to sustaining and improving upon its internal controls, operating policies and procedures, and awards monitoring.

The Fund continues to comply with the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA). The Fund's system of internal management, accounting and administrative control has been strengthened and is operating effectively. Enhanced policies and procedures ensure that Fund programs achieve their intended results; Fund resources continue to be used in a manner that is consistent with its mission; and Fund programs and resources are protected from waste, fraud, and mismanagement.

Enhanced internal efficiencies and improved staff capacity have resulted in unprecedented levels of productivity at the Fund. In FY 1999, we selected 260 institutions to receive \$112 million in awards, a 32% increase in the dollar amount of awards made in 1998. Our carry-over into FY 2000 was approximately \$10 million – a nearly four fold reduction from the \$36 million carried-over in FY 1999. We anticipate having no carry-over into FY 2001.

As I discussed with the Subcommittee in previous years, the Fund is committed to managing for results. Its mission is to promote access to capital and local economic growth by directly

investing in and supporting CDFIs and expanding banks' and thrifts' lending, investment, and services within underserved markets. I would like to highlight some of the progress we have made in achieving this important mission.

CDFI FUND INITIATIVES -- PUTTING CAPITAL TO WORK

The CDFI Fund pursues its mission goals through seven initiatives: 1) CDFI Certification; 2) the CDFI Program, which includes the Core, Technical Assistance and Intermediary Components; 3) the Bank Enterprise Award (BEA) Program; 4) the Training Program; 5) Microenterprise Initiatives; 6) Policy and Research Efforts; and 7) the Native American Lending Study/Action Plan.

CDFI Certification

To help recognize and support the growing CDFI industry, the Fund reviews the applications of organizations wishing to become Federally certified CDFIs. In order for the Fund to certify an organization as a CDFI, the organization must meet each of the following six criteria:

1. The organization and its affiliates must collectively have a primary mission of promoting community development;
2. The organization must be a financing entity (either an insured depository institution or an institution that principally provides loans or equity investments);
3. The organization must principally serve a target market consisting of distressed neighborhoods, low-income people, or other underserved populations;
4. The organization must provide training or technical assistance in conjunction with its financing activities;
5. The organization must maintain accountability to its identified target market; and
6. The organization must be a non-governmental entity.

There are several potential benefits of CDFI certification. First, certification enables an organization to be eligible to receive assistance from the Fund. Second, certified CDFIs may increase their capital by becoming partners with regulated financial institutions seeking awards from the Fund for investments in CDFIs. Third, CDFI certification may increase an organization's ability to raise funds from sources such as corporations, foundations and state and local governments. Finally, certified CDFIs may receive technical assistance from the Fund and training support from organizations sponsored by the Fund.

To date, the Fund has certified over 380 organizations as CDFIs. These organizations are headquartered in 47 states, the District of Columbia and Puerto Rico. CDFIs include community development banks, community development credit unions, housing loan funds, facilities loan funds, small business loan funds, micro-enterprise loan funds, multi-bank community development corporations, intermediaries and community development venture capital funds. On average, the Fund certifies approximately 75 new CDFIs each year.

The CDFI Program

The CDFI Program has three funding components: Core, Intermediary and Technical Assistance. These three components promote the Fund's goals, articulated in its strategic plan, of strengthening the expertise and the financial and organizational capacity of CDFIs to address the needs of the communities that they serve. The Fund engages in targeted outreach to inform potential applicants to these funding components. The Fund also provides debriefings to applicants that are not selected for awards.

The ***Core Component*** builds the financial capacity of CDFIs by providing equity investments, grants, loans or deposits to enhance the capital base -- the underlying financial strength -- of these organizations so that they can better address the unmet community development needs of their target markets. In addition, under the Core Component, the Fund provides technical assistance grants in order to build the capacity of awardees and maximize the community development impact of the Fund's awards.

The Fund selects awardees that clearly demonstrate private sector market discipline and the capacity to positively impact underserved communities. The Core Component leverages additional private and public sector investments into these same organizations through the Fund's application requirements, particularly the one-to-one non-Federal matching funds requirement.

In FY 1999, the Fund provided 78 Core Component awards totaling over \$78 million. This represents an 86% increase over the number of Core Awards provided in FY 1998 (42 awards), and a 77% increase over the total amount of dollars awarded under the Core Component in 1998 (\$44 million). Since inception, the Fund has made approximately 200 Core Awards totaling over \$193 million.

On November 1, 1999, the Fund published a Notice of Funds Availability (NOFA) announcing the availability of \$50 million in Core Component awards for FY 2000. We expect to make approximately 50-70 awards under this NOFA. The application deadline was January 20, and, as has been the case in every year, we are over-subscribed. The Fund received 160 applications requesting a total of \$264 million, over five times the amount of money the Fund announced as available under this program in FY 2000.

The ***Intermediary Component*** allows the Fund to invest in CDFIs indirectly, through intermediary organizations that support CDFIs and emerging CDFIs. These intermediary entities, which are also CDFIs, generally provide intensive financial and technical assistance to small and growing CDFIs, thereby strengthening the industry's financial and institutional capacity. Like Core awardces, Intermediary awardees are required to obtain matching funds in comparable form and value to the financial assistance they receive from the Fund.

Since inception, the Fund has made Intermediary Awards totaling over \$15 million to five different institutions. On November 1, 1999, the Fund published a NOFA announcing the

availability of \$6 million in Intermediary Component awards for FY 2000. The application deadline for this NOFA was January 18, and the Fund received seven applications requesting over \$9 million in assistance.

The ***Technical Assistance (TA) Component*** of the CDFI Program was first introduced in 1998. This component builds the capacity of “start-up”, young and small institutions. The TA Component allows the Fund to direct relatively small amounts of funds -- generally \$50,000 or less -- to CDFIs that demonstrate significant potential for generating community development impact, but whose institutional capacity needs to be strengthened before they can fully realize this potential. Some typical uses of our TA grants include: achieving operating efficiencies through computer system upgrades and software acquisition; producing internal policies and procedures; evaluating current loan products and developing new ones; and training staff in operations essential to the success of the organization.

In FY 1999, the Fund provided 88 Technical Assistance Component awards totaling over \$4 million. This represents a 24% increase over the number of TA awards provided in FY 1998 (71 awards), and a 33% increase over the total amount of dollars awarded under the Technical Assistance Component in 1998 (approximately \$3 million). Since inception, the Fund has made 159 Technical Assistance Awards totaling over \$7 million.

On January 4, 2000, the Fund published a NOFA announcing the availability of \$4.5 million in Technical Assistance awards for FY 2000. Commencing this year, the Fund will make award decisions regarding FY 2000 TA applications on a rolling basis with four separate application deadlines. In this manner, we hope to expedite both the approval and disbursement of TA awards and give TA applicants more flexibility in terms of when they apply for funds. We expect to issue approximately 80-90 TA awards in FY 2000.

Outreach: To date, institutions in 47 states plus the District of Columbia, Puerto Rico and the Virgin Islands have received CDFI Program awards. To inform potential applicants about the Fund’s programs, the Fund conducts informational workshops throughout the country. In preparation for the FY 2000 round of applications, the Fund conducted 13 Core/Intermediary Component outreach sessions, including one that was broadcast by satellite to 73 locations; and 7 Technical Assistance Component outreach sessions, including one that was broadcast by satellite to 85 locations. The live sessions were held in regions of the country where there are relatively fewer CDFIs, including four sessions specifically targeted to organizations serving Native American populations.

The Fund is particularly interested in reaching out to organizations that provide capital and technical assistance to rural communities. In the past few months, we have conducted, either live or by satellite, information sessions in 55 rural communities – two and a half times the number reached in FY 1999. We will continue to increase our efforts to reach rural communities.

Debriefings: To further our goal of building the institutional capacity of the CDFI field, we provide debriefings to applicants that were not selected for CDFI Program awards. Applicants

are given valuable feedback about strengths and weaknesses of their applications as observed by those community development professionals involved in reviewing their requests for funding. Many of these applicants use the information gathered from the debriefing to build the strength of their operations and to improve their performance. In FY 1999, the Fund provided debriefings to 110 institutions that had been unsuccessful in seeking awards under the FY 1998 funding round. Already in FY 2000, we have provided debriefings to 62 organizations that were not selected to receive an award in FY 1999.

The Bank Enterprise Award Program

The Bank Enterprise Award (BEA) Program is the principal means by which the Fund achieves its strategic goal of expanding financial service organizations' community development lending and investments. The BEA Program recognizes the key role played by mainstream depository institutions in promoting the revitalization of distressed communities.

The BEA Program provides monetary incentives for banks and thrifts to expand their investments in CDFIs and/or to increase their lending, investment and service activities in distressed communities. BEA awards vary in size, depending upon the type and amount of assistance provided by the bank and the activities being funded through the bank's investments. In general, banks that provide equity investments to CDFIs are likely to receive the largest awards relative to the size of their investments.

The leveraging involved in the BEA Program is impressive. To date, 274 awards totaling over \$89 million have been announced for banks and thrifts investing in CDFIs and distressed communities throughout the country. This \$89 million actually reflects investments in CDFIs and underserved communities of \$1.87 billion, over 20 times the amount of the Fund's investment. To date, banks and thrifts receiving BEA awards have provided \$439 million directly to CDFIs, and \$1.43 billion to distressed communities in the form of direct loans, investments and services.

In FY 1999, as in every year since the program's inception, the Fund increased both the number and the total amount of our BEA awards. In FY 1999, we made 103 awards totaling \$31.7 million. This represents an increase of 30% over the number of awards made in 1998 (79 awards), and 13% over the dollar amount of the awards made in 1998 (\$28.1 million).

On September 1, 1999, the Fund published a NOFA announcing the availability of \$25 million in BEA Program funds for FY 2000. The application deadline for this NOFA was November 23, 1999. We received 228 applications, a 64% increase over the 138 applications that were received in FY 1999. If the applicant institutions complete all of the activities proposed in their applications, we estimate that they would be eligible for awards totaling approximately \$109 million – over four times the amount of money currently available for the BEA Program.

The Training Program

The Training Program, begun in FY 1999, enhances the Fund's ability to achieve its strategic goal of strengthening the organizational capacity and expertise of CDFIs. The Training Program provides funds that support the development and delivery of training products to CDFIs and other financial service organizations engaged in community development finance. Training needs will be addressed via classroom instruction, web-based distance learning, and other electronic formats. In addition, the Fund will explore supporting other types of capacity building training opportunities, including structured internships.

In FY 1999, the Fund initiated its first activity under this program. We undertook a market analysis of the training needs and resources of CDFIs and community-focused financial service organizations. The purpose of the market analysis was to determine: (1) the quality and extent of training available for CDFIs and financial service organizations engaged in community development lending; (2) the training needs of such organizations; (3) impediments to obtaining needed and adequate training for such organizations; and (4) strategies for eliminating those impediments. We recently received the results of this analysis and expect it to inform our future training initiatives.

In FY 2000, the Fund anticipates awarding, through competitive procurement processes, up to \$6 million in contracts to entities for the purpose of developing and delivering specific training products to CDFIs and eligible financial service organizations. Funding will be made available to entities that provide training in a number of disciplines, including market analysis, financial projections, program development and organizational development.

Currently the Fund has received and is reviewing proposals from training providers offering the development and delivery of training for three specific areas: preparation of financial projections; preparing a market analysis; and the fundamentals of lending operations. We anticipate that the proposals will result in over \$1 million in contracts. Training provided under these contracts will begin this year.

Microenterprise Initiatives

As part of its strategy to democratize access to capital, the Fund works to strengthen the field of microenterprise development and microentrepreneurs. In addition to providing assistance to microenterprise loan funds under the CDFI Program, the Fund administers two initiatives specifically targeting microenterprise organizations and microentrepreneurs: 1) the Presidential Awards for Excellence in Microenterprise Development; and 2) the Interagency Workgroup on Microenterprise Development.

The *Presidential Awards for Excellence in Microenterprise Development* is an annual non-monetary awards program that recognizes organizations that have demonstrated excellence and leadership in promoting microenterprise development. These awards reflect the

Administration's on-going commitment to advancing the role of microenterprise development in enhancing economic opportunities for all Americans -- particularly low-income people and others who lack access to traditional sources of credit and business development assistance. By recognizing outstanding organizations, the program promotes "best practices" within the microenterprise development field in the United States and brings wider public attention to the important role of microenterprise development in the domestic economy.

Awards are given to practitioner organizations -- entities that provide microentrepreneurs access to credit, training, counseling and technical assistance -- for demonstrating excellence in *providing access to capital; alleviating poverty; developing entrepreneurial skills; and innovative programming*. In addition, organizations that support the effort of practitioner organizations through financial assistance, technical assistance, research, or other activities are eligible for awards for demonstrating *excellence in public or private support*.

The Fund is co-chairing, with the Small Business Administration, the ***Interagency Workgroup on Microenterprise Development***. The workgroup was established in 1998 to coordinate the work of Federal agencies involved in microenterprise efforts, and to develop a coherent framework for Federal government efforts to promote microenterprise. The Workgroup includes participants from several Federal agencies and departments. It is examining Federal policies that affect the microenterprise field and is harmonizing discrepancies in definitions and reporting standards among Federal programs that support microenterprise development. This year the workgroup expects to publish a policy paper, a matrix of microenterprise programs at the Federal level, a listing of needs of the field, and case studies highlighting examples of microenterprise best practices.

Policy and Research Initiatives

The Fund's Policy and Research initiatives focus on three areas: 1) measuring and reporting on the performance of awardees; 2) promoting industry-wide research and development activities; and 3) instituting policies that maximize the effectiveness of the Fund's programs.

Reporting on Performance and Outcomes:

Core Component Survey -- For the second consecutive year, the Fund conducted a survey of its Core Component awardees to determine the impact of these awardees on the communities that they serve. We evaluated only 1996 and 1997 awardees because they have had at least one year to absorb the Fund's investments and put them to work. As of today, we have received and analyzed responses from 53 of 71 organizations. Together, these awardees received \$50 million in Fund awards. What has our \$50 million helped these institutions to accomplish?

Our preliminary findings demonstrate that these awardees have generated significant community development impact. Since the time of their award, our Awardees have made \$1.5 billion in community development loans and investments, which have helped to: create or expand up to 4,123 microenterprises and 2,063 businesses; create or maintain up to 36,718

jobs; develop or rehabilitate up to 28,166 units of affordable housing; and develop or support up to 745 community facilities. These facilities have the capacity to provide child care to as many as 14,255 children, health care to as many as 52,614 patients and education to as many as 8,381 students.

Our credit union and community development bank awardees provided 76,554 checking and savings accounts totaling \$126 million in 1999. Seventy six percent (76%) of these accounts are held by low-income individuals. These institutions have also provided 372 Individual Development Accounts (IDAs) with deposits totaling \$384,000.

Since receiving their Fund awards, the 53 awardees have also strengthened their capacities to deliver products and services to their target communities. Our awardees provided business training, credit counseling, homebuyer training and other development services to up to 32,915 individuals and organizations. Their total assets have increased by 119%, growing from \$685 million in the aggregate before they received their awards to close to \$1.5 billion in the aggregate in 1999. The average awardee's client base is 72% low-income, 59% minority, 51% female, 55% central city, 35% rural, and 10% suburban.

Finally, Fund awardees have leveraged significant additional capital. They estimate that an additional \$215 million in capital over and above the \$50 million raised as part of our 1:1 matching funds requirement can be directly attributed to receipt of a Fund award. In most cases, their community development loans and investments were part of a larger deal. In 1999, for every \$1 our awardees loaned or invested in their communities, \$1.30 was invested by other entities.

BEA Program Survey: This past year, the Fund developed a pilot survey and administered it to a sample of 30 banks and thrifts that received BEA awards in 1998. Thus far, we have received responses from 23 institutions. Among other things, the survey asked: 1) how the promise of a BEA award influenced the lending policies or products of the awardee; 2) how the awardee spent its BEA award. We are still collecting and analyzing surveys, but the preliminary findings indicate that the BEA Program is a valuable tool for encouraging banks to increase their community investments.

The pilot survey indicates that the BEA Program has been successful in helping banks to offer more flexible products to organizations and individuals. The vast majority of the respondents reported that the likelihood of a BEA award allowed them to offer or develop products they otherwise wouldn't have. These include longer term, lower interest rate loans; below market rate deposits; and new products such as pre-development loans. Many of the respondents also indicated that the prospect of a BEA award allowed them to offset risks of return, and thus fund projects that they would not have otherwise supported. A majority of respondents also reported that they increased their investments in CDFIs and/or built new relationships with CDFIs as a consequence of participating in the BEA Program.

Twenty-one (21) of the 23 respondents reported that they used their BEA award monies to fund additional community development initiatives. This is an impressive outcome, given that

awardees are under no obligation to reinvest BEA Program award funds in this fashion. Many of the respondents reported using their BEA awards to increase their grants and investments in CDFIs and in other non-profit community development organizations. Others used their award money to subsidize below market rate loans to community development institutions and low-income borrowers, or to increase the provision of technical assistance to borrowers.

The Fund is encouraged by the preliminary results of this survey, as well as the response rate we achieved. These findings suggest that the BEA Program is an effective incentive for banks to increase their community development finance activities.

Reporting on Certified CDFIs: With over 380 organizations certified as CDFIs and new applications for certification arriving regularly, the Fund has information on more CDFIs than any other entity in the country. This past year, the Fund worked with CDFI industry groups to develop a brief questionnaire that will produce aggregate, standardized data from every certified CDFI. This data will enable the Fund to report on the total volume of CDFI lending and investing, portfolio quality, community development impact indicators, capital managed by CDFIs, and basic CDFI financial indicators. As of November 1, 1999, all entities seeking certification or re-certification with the CDFI Fund are required to complete this brief questionnaire.

Promoting Industry-Wide Research and Development: The Fund has begun working with CDFI industry groups and other major funders to develop an industry-wide research agenda. The Fund has solicited input from practitioners, funders and academics to identify gaps in existing research and will work with the industry to establish a coordinated research program that addresses the needs identified by the industry and its investors. The Fund has also initiated, and will continue to pursue, in-house research activities that examine various aspects of our awardees' work.

Developing Fund Policies: The Fund is constantly seeking to improve upon its programs and policies to obtain higher levels of efficiency, and to be more responsive to the needs of our applicants and awardees. In 1999, the Fund performed a comprehensive review of its certification and funding processes. The Fund solicited input from applicants and awardees, external reviewers, and Fund staff about ways to improve documents and processes to ensure that they are well coordinated and transparent. With this feedback, the Fund implemented significant revisions to its certification, Core, Intermediary and TA applications, application review criteria, awards closings procedures and reporting requirements. These changes were codified as revised interim regulations, published on November 1, 1999. As a result, applicants for certification or for funding in FY 2000 and in future years will benefit from more transparent and efficient policies, procedures and application materials.

Native American Lending Study/Action Plan

Our Native American Lending Study/Action Plan is intended to stimulate private investment on Native American reservations and other lands held in trust by the United States. The first step

in accomplishing this goal is to identify the barriers to private financing in these areas. To this end, the Fund conducted 13 regional workshops across the country. The workshops included participants from Native American communities, financial institutions, Federal and state agencies, and community development organizations. Participants in these workshops identified barriers to investments in Native American communities and developed strategies and actions for eliminating these barriers. The Fund is also administering a national survey to collect additional data from Native American organizations and financial institutions regarding barriers to accessing capital in Native American communities. The products from these workshops and the results of this survey will assist the Fund in completing the Study. It is anticipated that the final report will be submitted to the Congress and the President by the end of this year. This report will contain recommendations regarding policy, legal, statutory and regulatory changes needed to spur more investment within Native American communities.

THE YEAR AHEAD: FY 2001

The President's FY 2001 budget request includes \$125 million in appropriations for the Fund. This request is \$30 million above FY 2000 funding levels. Of the \$30 million in additional funding requested, the Fund proposes to use \$28,360,000 to fund its various programs and \$1,640,000 to cover administrative expenses. These additional appropriations will assist the Fund in its efforts to continue to meet the great demand for its programs. In the past, we have addressed this demand with a combination of new appropriations and funds carried over from previous fiscal year appropriations. However, because we do not anticipate carrying over any appropriations into FY 2001, the Fund will need all of the President's FY 2001 budget request to address the demand for its programs.

In every year since the Fund's inception, interest in our programs has increased. This year has been no exception to that rule. In FY 2000, the Fund received 167 Core and Intermediary Component applications requesting a total of \$273 million in awards – or 37% more than the \$200 million requested under these Components in FY 1999. The Fund also experienced a 64% increase in the number of BEA Program applications received in FY 2000 as compared with FY 1999. The additional appropriations requested for the Fund by the President's FY 2001 budget will enable the Fund to continue to invest in worthy organizations and proposals at approximately the same rate as it has done up to now.

The Fund is requesting an additional \$1.6 million in appropriations for FY 2001 to cover administrative costs. These funds will be used to support 10 new FTE positions and to cover the salary cost of living increase for existing staff. Consistent with our appropriations requests outlined above, we anticipate that most of these new hires will be used to administer Fund programs. Current Fund staff work tirelessly to ensure that the Fund makes prudent investments and that our awards are disbursed in a timely fashion. However, the increasing demand for our programs and a growing portfolio of investments to monitor makes it necessary to hire additional staff. Sufficient staff ensures that we will continue to make sound investment decisions and retain the capacity to monitor the growing number of awardees in our portfolio.

The Fund's budget request for FY 2001 also includes a \$5 million set-aside for the purpose of establishing training and technical assistance programs to increase access to capital in Native American, Alaskan Natives and Native Hawaiian communities. The need for this set-aside was identified in the workshops related to the development of the Native American Lending Study/Action Plan. This set-aside would fund educational and other programs that: 1) enable financial institutions currently serving these communities to enhance their capacity to provide access to capital and credit; 2) assist financial institutions contemplating serving these underserved communities to do so; and 3) assist these communities in establishing their own community development financial institutions.

We anticipate making additional innovations in our programs that will enable us to better serve small, emerging and rural CDFIs in FY 2001. We plan to amend our Technical Assistance Component to allow small and emerging CDFIs to compete for both technical assistance and financial assistance in amounts up to \$150,000 to \$200,000 per round. This innovation addresses the Small and Emerging CDFI Access Program idea that Congress encouraged the Fund to consider last Fall. We are also looking forward to expanding some of our current research initiatives. We intend to fund a research project this year that examines the feasibility of creating a secondary market for community development loans. Pending the outcome of this study, we hope to be able to fund a secondary market pilot project in FY 2001.

Finally, we anticipate that our nascent Training Program will facilitate the development and delivery of several new training and technical assistance products by 2001. The Fund will solicit bids from prospective developers and providers of training products in FY 2000, with the intent that they will complete their products and make them available to CDFIs and other community development financial service organizations early in 2001.

CONCLUSION

Mr. Chairman and members of the Committee, thank you for giving me the opportunity to provide this information on the Fund's current activities and FY 2001 budget. I am hopeful that this Committee will approve the President's \$125 million budget request for the Fund, so that we may continue to work on creating jobs, affordable housing, childcare facilities, small businesses and economic revitalization across America.